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SUBJECT: EMPLOYEES OF FAILING BUSINESSES SEEK
NATIONALIZATION

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Classified By: A/ECON John Stepanchuk, Reasons 1.4 (b,d)

SUMMARY

1. (C) On August 6, AvtoVaz workers rallied to demand the nationalization of their employer, which suspended production in August and planned to reduce the workweek in September. Demands for nationalization by workers and unions increased in frequency, particularly in industrial areas, owing to the inability of companies hardest hit by the crisis to meet their financial obligations. Opinion polls indicated that a growing portion of the population supported nationalization. The inefficiency and slow pace of Russia's bankruptcy system left workers little recourse but to turn to the government. The GOR plans to pass new bankruptcy legislation by the end of 2009. Unions lobbied for a new law on the nationalization of poorly managed enterprises, but limited political support and sharp criticism from experts diminished its chances of success. Widespread nationalization would not only place an additional fiscal burden on the administration, but also fail to address the underlying issues inhibiting entrepreneurial activity in Russia. End summary.

DISGRUNTLED WORKERS DEMAND NATIONALIZATION

2. (U) On August 6, participants in a rally in Tolyatti, Samarskaya oblast, organized by the independent, AvtoVaz union, "Edinstvo," denounced AvtoVaz leadership for its incompetence and demanded the nationalization of the company, transparent management, and an Audit Chamber investigation into the company's use of funds. (Note: AvtoVaz has already exhausted almost all of the 25 billion rubles in government assistance it received in June. End Note) Over 500 AvtoVaz employees, representatives of the company's suppliers, and city residents took part in the event, protesting the August suspension of production at the Tolyatti plant and the reduction in the workweek planned for September. According to a public letter from Andrei Lyapin, Tolyatti Coordinator of the Interregional Union of Auto Manufacturing Workers, Tolyatti residents believed that only the government could solve such large-scale problems, not in the interests of owners' profits, but in defense of citizens' interests.

3. (C) Workers' demands for nationalization have increased in frequency as a growing number of companies fail to meet their obligations to their employees owing to the financial crisis. The question of nationalization immediately arose following

the highly publicized blockade of a highway outside St. Petersburg by workers from the town of Pikalevo, see reftel. Workers have also drawn authorities' attention to their plight at the "Estar" metallurgical factory in Kemerovskaya oblast, Alekseyeva Defense TSBK in Nizhegorodskaya oblast, and Baikalsk Pulp and Paper Mill in Irkutskaya oblast. (Note: The Baikalsk board of directors has already voted in favor of transferring the company to public ownership, even without government legislation. End Note) Elena Gerasimova, Center for Social and Labour Rights Director, told us that workers see nationalization as the only way out of the difficult situations in which many companies now find themselves.

14. (SBU) Russian citizens in general increasingly approve of nationalization and government intervention as appropriate measures to resolve the problems faced by companies severely affected by the financial crisis. Forty percent of Russians approved of the government's direct intervention to address the situation in Pikalevo according to a June poll by the All Russian Center for Public Opinion Research. Moreover, 44 percent of those surveyed thought that the ordered renewal of production by Putin was only a temporary measure, and that lasting success required the nationalization of the enterprises involved.

INEFFECTIVE BANKRUPTCY PROCESS LEAVES LITTLE CHOICE

15. (SBU) In addition to the traditionally patriarchal relationship between citizens and the state, the inefficiency

MOSCOW 00002230 002 OF 002

of Russia's bankruptcy system leaves employees little recourse but to turn to the government for nationalization. In an August interview with Rossiskaya Gazeta, Mikhail Shmakov, Chairman of the Federation of Independent Unions of Russia (FNPR), contrasted the multi-year duration of the Russian bankruptcy process with the relatively speedy U.S. process, noting that the Russian process usually ended in the destruction of the enterprise. Presidential economic adviser Arkadiy Dvorkovich recently told the Financial Times that less than 10 of 100 Russian companies that had recently gone through bankruptcy procedures had survived. In addition, an International Management Problems Institute study on the protection of Russian employees' rights in insolvency noted that employees could not initiate bankruptcy proceedings to secure payment of debts owed them by their employer; preferential creditors experienced difficulty exercising their rights; local executive agencies inadequately implemented bankruptcy regulations; and liquidated companies' assets were often insufficient to settle arrears.

16. (U) The government is pushing for reforms that would increase the efficiency and effectiveness of Russia's bankruptcy system. Dvorkovich told the Financial Times that the government would present new bankruptcy legislation to the Duma, which would be passed into law by the end of 2009. The government's top priority is the prevention of companies from closing and leaving their workers unemployed.

UNIONS LOBBY FOR NATIONALIZATION LAW

17. (SBU) In the absence of other alternatives, unions are lobbying for a law on the nationalization of troubled enterprises. FNPR Chairman Shmakov told Rossiskaya Gazeta that his organization hoped to initiate the development of a bill in the Duma mandating the nationalization, restructuring, and sale to more effective management of poorly managed companies. Duma deputies already introduced a similar, but case specific, bill in order to address the situation in Pikalevo, which has not yet been passed by the Duma. (Note: Commentators speculated that BaselCement owner

Oleg Deripaska actually favored nationalization in the case of Pikalevo as a way to transfer the burden of a problematic enterprise to the taxpayers. End Note)

18. (SBU) Efforts to promote nationalization as a standard solution for financially strapped companies lack support from both politicians and experts. Members of the Duma property committee stated that nationalization should only take place on a voluntary basis. Mikhail Tarasenko, author of the bill to nationalize the enterprises involved in the events in Pikalevo, told Gazeta.ru that each case had to be considered individually. Evgeniy Gavrilentov, Troika Dialog chief economist, stated that nationalization, "chopped away at the bases of the economy," and "indicated that we do not have any working institutions." In addition, Igor Nikolaev, Director of the Strategic Analyses Department of the FBK, argued that "the authorities had already made enough mistakes," and that, "it would not do to multiply them."

COMMENT

19. (C) Despite unions' ongoing efforts to induce the government to nationalize Russia's troubled companies, the lack of political will and financial implications for an administration already facing significant budget deficits in the coming years diminish the likelihood of their success. Although nationalization and the implicit job security it would provide offer a short-term solution for the potential socioeconomic consequences of the failure of a company, it would be unlikely to improve its efficiency, solve the problem of decreased domestic demand, or address the underlying administrative barriers inhibiting Russia's entrepreneurial growth, which require less government intervention, not more. End Comment.
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